



U.S. SENATE BANKING COMMITTEE

**For Immediate Release
March 6, 2008**

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Opening Statement of Senator Dodd “Reforming the Regulation of the Government Sponsored Enterprises”

Remarks as Prepared:

The Committee will come to order. This morning’s hearing is the second hearing the Committee will hold on the topic of “Reforming the Regulation of the Government Sponsored Enterprises.”

In February, we heard from the Treasury Department, the regulators, and the two enterprises. Today we will hear from the Government Accountability Office as well as a host of interested and knowledgeable parties with considerable housing expertise.

As I mentioned at the last hearing, under the very able leadership of Senator Shelby, this Committee established a substantial record on the GSE issues over the course of the previous two Congresses. I want to reiterate that Senator Shelby has shown important leadership on this issue. This hearing adds to this significant body of work.

As I said at the last hearing, the current crisis in the mortgage markets underscores the need to have strong and healthy housing GSEs. The FHA and conforming, conventional markets are the only parts of the mortgage market system that are operating effectively today.

Both Fannie Mae and Freddie Mac, each of whom have just recently brought their financial reporting up to date, announced serious losses for 2007. In 2007, Freddie Mac experienced its first-ever annual loss, and Fannie announced its first annual loss in over twenty years. Despite these problems, however, and in part because of improved oversight by OFHEO, both are doing one of the important jobs for which they were created – maintaining liquidity in the mortgage markets.

Unfortunately, some recent announcements by the enterprises raise questions as to how committed they are to continue to meet this obligation going forward. Both Fannie Mae and Freddie Mac have announced plans to raise costs or limit access to credit in areas that may be in the most need of affordable credit. These kinds of plans will exacerbate the

credit cycle, rather than mitigate its negative effects. In my view, this is a curious policy for a government-sponsored enterprise to pursue.

In any case, there is broad agreement that we need a strong, single regulator for all the housing GSEs with authority over safety and soundness and mission, with the power to set capital commensurate with risk, to issue cease and desist orders, to require prompt corrective action to correct unsafe practices or conditions.

We also need a strengthened commitment to housing affordability – for low-income families as well as middle-class families; for renters as well as homeowners; and for homeowners at risk of losing their homes because of the terrible lending practices we have seen over the past several years.

It is my hope to move legislation that achieves all of these outcomes.

Before turning to my colleagues, I want to take brief note of the speech given by Federal Reserve Chairman Bernanke earlier this week. Chairman Bernanke has now advocated for the kind of bold action that I and others have been arguing is needed to address the housing crisis that has spread more broadly to the capital markets, causing significant damage to the rest of the economy. I am drafting legislation to put this plan into action. I want to work with Senator Shelby and our other colleagues on this effort to remedy this economic crisis.

I also want to invite Chairman Bernanke to work with us on this Committee to get this kind of legislation passed. I also want to urge Secretary Paulson to join the effort. I intend to ask today's witnesses about their views on the best way to address the current crisis in the question and answer period.